SVKM's NMIMS University
School of Distance Learning

International Financial Management

Date: 7.6.2008 **Marks: 100**
Time: 3.00 pm to 6.00 pm

Notes: 1. Answer any FIVE of the following EIGHT questions
2. All the questions carry equal marks
3. Good presentation will be rewarded

Answer the following questions

1. Distinguish between International Economics and International Finance and briefly explain different theories of International Trade.

2. What do you mean by Foreign Direct Investment and distinguish between FDI and FII. Explain briefly the theories of Foreign Direct Investment

3. Define 'Foreign Exchange Rate'? Is there any reciprocal relationship between foreign exchange rates? Give suitable example

4. What are the important internal techniques you suggest for managing exchange risk of Multinational Enterprises?

5. What is 'Letter of Credit'? Explain the importance of letter of credit in financing practices of an importer.

6. What are objectives of EXIM Bank and ECGC? Compare and contrast the lending programmes of EXIM Bank and Export Credit Guarantees of ECGC.

7. What are issues involved in Cash Management of a Multinational Company? What do principles you suggest for their global cash holdings?

8. SRK Corporation is planning to venture into to US market. Evaluate the following cross-border investment opportunity for them based on Valuation in Parts method. All the numbers are presented in Indian Rupees.

Year	Cash Flows in millions
0	500
1	70
2	90
3	120
4	130
5	150

SRK Corp. has been in the business of film production and distribution. It finds that the cost of capital of the business is 12%. They plan to finance 60% of investment through 10% Debentures which are repaid in equal installment for the next 5 years. The opportunity cost of equity shareholders is 15%. The tax rate is assumed to be 50%.

Comment whether the cross-border investments makes wealth for its shareholders.

9. Answer any FIVE of the following questions
    a. Transfer Pricing
    b. Balance of Payments
    c. Swaps
    d. Law of One Price
    e. Post shipment financing
    f. LIBOR
    g. How does exporter hedge against risks?
    h. Distinguish between DA and DP mode of payment
    i. Based on the following, estimate the exchange rate for 2008

2005 Exchange Rate	2006 Exchange Rate	2007 Exchange Rate
1 US $=56 Rupees	1 US $=54 Rupees	1 US $=48 Rupees

10. Mrs. Charles, CEO of an US Inc,. is considering an expansion of its British subsidiary, UK plc. The cost of the expansion is 100 Pounds millions, which must be expended in the very near future. In addition, US Inc. will have to fund additional working capital of 12 pound million at the time of the expansion.

    In conformity with its practice at home, US Inc, evaluates capital expenditure proposals by discounting free cash flows at an appropriate weighted average cost of capital (WACC). The tax rate is 35%

    Forecasted Cash Flows for the expansion of UK Plc by US Inc. (in millions)

Year 0	1	2	3	4	5	Terminal Value
-112	20.8	17.8	10.4	19.8	20.8	156.0

Summary of Key assumptions pertaining to the valuation of UK's Expanson Project			
	$ (doller)		Pound
Gemeral economic assumptions			
Price inflation	3.00%		7.00%
Yield on government bonds	6		10.1
Corporate tax rate	34		35
Equity market risk premium	8.6		na
Spot exchange rate (doller/pound)		($1.70 bid - $1.7010 ask)	
Project-specific assumptions			
Cost of debt	9.40%		13.60%
Debt-to-capital ratio		0.4	
Systematic risk			
Asset Beta		0.76	
Equity Beta		0.9	